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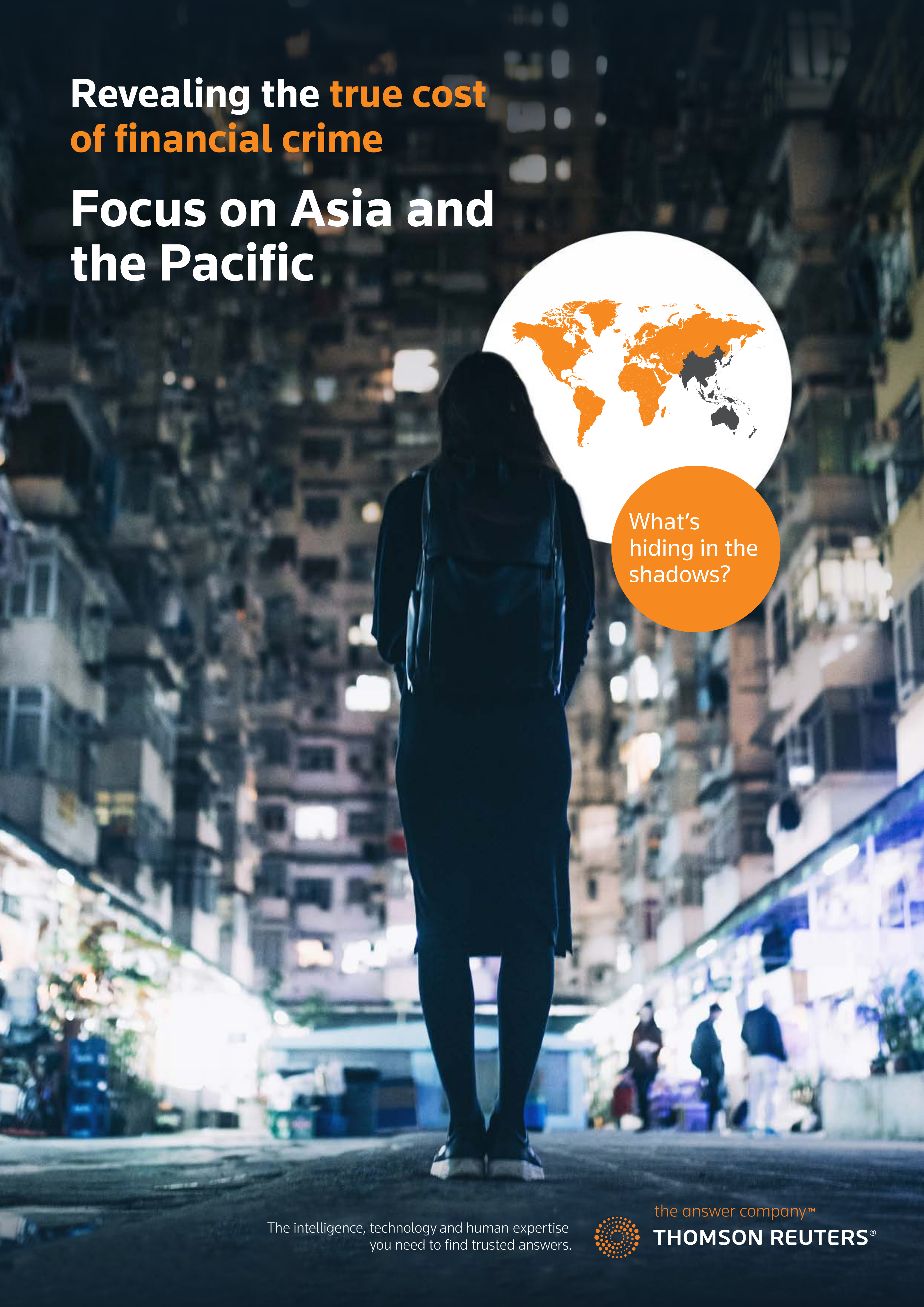
REFINITIV™

Revealing the true cost of financial crime

Focus on Asia and the Pacific



The intelligence, technology and human expertise you need to find trusted answers.

In March 2018, Thomson Reuters commissioned a global survey to better understand the true cost of financial crime, and to raise awareness of its wider impact on business, individuals and society as a whole.

In total, over 2,300 senior managers from large organizations across 19 countries participated. We also supplemented the survey findings by conducting in-depth research and holding interviews with leading NGOs (Education Endowment Foundation, Transparency International UK and Walk Free Foundation) and the European Union's law enforcement agency to gain perspective on the human cost of financial crime.

This report specifically examines the findings in Asia and the Pacific.

About the survey

For purposes of this report we have used a wide definition of financial crime, one that goes beyond the scope with which Thomson Reuters is traditionally associated. In order to provide as complete a picture as possible on the social and financial impact of financial crime, we have included bribery and corruption; money laundering; fraud; theft; cybercrime; and slave labor/human trafficking.

A total of 2,373 C-suite/senior management in large organizations across 19 countries[1] completed the survey.

Respondents' feedback was grouped according to the regions in which their companies operate in order to deliver a global opinion of those regions, based on first-hand experience and knowledge. This report includes statistics covering Asia-Pacific and Southern Asia.

The survey sought feedback from both publicly listed and privately owned organizations.

A range of industries was consulted, including agriculture; mining; construction; retail; manufacturing and financial.

Please note that the standard convention of rounding has been applied and consequently some totals do not add up to 100%.

2,373
RESPONDENTS

19
COUNTRIES

1. Respondents were based in the following individual countries: The USA, Canada, China, India, Singapore, Australia, the UK, Germany, the Netherlands, Spain, France, Russia, Poland, the UAE, Saudi Arabia, South Africa, Nigeria, Brazil and Mexico. Please note, however, that research shows that the operations of respondents' organizations are global, meaning that the regional statistics included in this report do not only reflect information relating to the individual countries listed above. Rather they reflect broader regional perspectives according to the respondents' firsthand knowledge and experience in those regions.

The hidden face of financial crime

The true cost of financial crime extends far beyond pure economics. Critical social consequences include the proceeds of financial crime being used to fund the financing of terrorism; human rights abuses such as slavery and child labor; and environmental crime.

Loss of revenue to national governments has a host of knock-on effects, too, including the fact that lower tax revenues mean that less money is available to fund schools, hospitals and other essential services.

On a macro level, raising awareness is a key tool, as is collaboration and the sharing of information and ideas on the best methods to combat financial crime. On an organizational level, invaluable tools include access to reliable risk data that offers breadth of risk intelligence coverage, and finding the right partners to enable a holistic approach to effective risk mitigation throughout the compliance process.

Financial crime affects everyone and gaining insight into its true magnitude and devastating effects is of paramount importance.

Financial crime: some background to the challenge

Extensive networks

Financial crime can flourish if it is able to 'hide' in organizations' third party networks – networks that are often extensive and can span the globe. To better understand the magnitude of these networks, our survey asked respondents to estimate how many third party vendor, supplier or partner relationships their company had during the 12 months preceding the survey.

The average across the globe was reported a 7,693, but rose to 8,301 in Asia-Pacific and a significant 12,224 in Southern Asia. These figures serve to highlight the vast number of external relationships that organizations need to understand, screen and monitor, with the average for Southern Asia particularly noteworthy.

Ever-increasing pressure

Organizations are also operating against a backdrop of growing pressure – pressure to increase turnover, grow profits, develop new markets, increase market share and improve regulatory safeguards.

Globally 83% reported that pressure to increase turnover in the 12 months post-survey is expected to be either extreme or significant. This sentiment was echoed throughout the region, with 85% in Asia-Pacific and 87% in Southern Asia expressing the same sentiment.

Initial screening and ongoing monitoring

This pressure, added to a host of global regulations and legislation to combat financial crime, has led to a situation where compliance teams often struggle to fully screen and monitor the vast number of customers, third party vendors, suppliers and partners identified above.

The consequences of compliance failure are significant, and compliance teams are aware of their responsibilities, but nonetheless often struggle with the task at hand. We therefore asked respondents what percentage of these relationships were ever screened for bribery and corruption; money laundering; fraud; theft; cybercrime; and slave labor/human trafficking. Across the globe, the average was just 59%, rising slightly to 61% in Southern Asia and 62% in Asia-Pacific.

Once they are initially screened, the percentage that are monitored and reviewed on at least an annual basis is also pertinent. Again the global average was 59%, rising to 62% in both Asia-Pacific and Southern Asia. Although these regional percentages are slightly higher than the global average, this nonetheless means that, within the region, under 40% of these relationships are fully screened – at the onboarding stage – for potential links to financial crime.

Measuring the impact of financial crime

Respondents were asked whether their companies had been victims of any of the identified financial crimes throughout their global operations during the 12 months preceding the survey. Responses indicated that 47% across the globe had been the victim of at least one of these crimes, compared to somewhat higher regional figures – 49% in Asia-Pacific and 53% in Southern Asia.

The true cost of such crimes must be measured in terms of their financial, social and humanitarian impact. Within each country surveyed, we calculated the sum of the published turnover (last 12 months) of listed companies with a turnover of USD$50 million or more and applied a global estimate of lost turnover as a consequence of financial crime at 3.5%, giving a global estimated loss of turnover of just over USD$1.45 trillion.

On the same basis, we analyzed 4,018 listed companies in Asia-Pacific with a total sum turnover USD$5.2 trillion, and the estimated loss amounted to USD$166 billion. In concrete terms, what could this lost revenue have meant? By way of example, let's look at how much $1 billion can buy in the vital area of education in different countries across the globe.

In Spain, this amount could pay for high-quality early years education for 150,000 toddlers, whilst in Russia $1 billion could provide 180,000 toddlers with the foundations they need to become fluent learners at school. In Mexico, it would mean 327,000 additional children placed in primary and secondary schools; and in India $1 billion could build 2,000 more schools. In Poland, this money could pay for 64,000 additional teachers, or 21,000 in the USA.

These examples just begin to illustrate the real-life consequences and impact on individual lives as a direct result of every dollar of revenue lost to financial crime.

Moreover, there is a further 'hidden' cost – the opportunity cost that results when organizations avoid doing business with high risk customers because they feel unable to identify actual risk. In order to avoid, rather than manage heightened risk customers, 72% agreed that their organizations consider de-risking appropriate. Within the region, these percentages were even higher at 75% in Asia-Pacific and 81% in Southern Asia. This is an understandable reaction to potential risk, given that any connection, even unwitting, to any form of financial crime could potentially result in regulatory fines, reputational damage and even prosecution.

GLOBALLY
47%
HAVE BEEN A VICTIM OF FINANCIAL CRIME

OUT OF
2,373
RESPONDENTS

Different aspects of financial crime

Perceived relative importance

What aspects of financial crime do organizations feel are the most important to prevent?

In every region surveyed, the lowest percentage of respondents considered slave labor/human trafficking to be important, suggesting a widespread lack of appreciation of the importance of addressing and eradicating these crimes against humanity. With an estimated 40 million people living in modern slavery, the human and economic costs are enormous. A 2014 report by the International Labour Office (ILO) puts the cost at $150 billion. It is likely that the real numbers are far higher.

Conversely, two areas – bribery and corruption; and cybercrime – stood out across all regions, with the highest percentage across the globe (94%) selecting bribery and corruption as an important issue to tackle. Similar, but not identical, sentiments were expressed within the region: in Asia-Pacific, 96% believed cybercrime to be important and 95% selected bribery and corruption as important. In Southern Asia, bribery and corruption topped the charts, selected by 96% of respondents.

PERCENTAGE OF TURNOVER LOST TO BRIBERY AND CORRUPTION

In the 12 months preceding the survey, the percentage of **turnover lost to bribery and corruption** was an average of **3% in Asia-Pacific** (the lowest percentage across all regions surveyed) and a proportionately higher **4% in Southern Asia** (the highest percentage across all regions surveyed), compared to a global figure of 3.2%.

56% in Asia-Pacific believe that the consequence of this bribery and corruption will be **higher prices for end users** and **56% believe** that the **result will be less government revenue**. **In Southern Asia 63% expect higher prices for end users** as a consequence of bribery and corruption.

89% in both Asia-Pacific and Southern Asia agreed (either strongly or slightly) with the statement **'we struggle to educate and influence colleagues on bribery and corruption in some regions'**.

3%
ASIA PACIFIC
4%
SOUTHERN ASIA

56%
ASIA PACIFIC
63%
SOUTHERN ASIA

89%
ASIA PACIFIC AND SOUTHERN ASIA

The current state of play

How much are companies spending?

Globally, companies spent 3.1% of turnover to prevent financial crime in their global operations over the 12 months preceding the survey. This percentage was the same in Asia-Pacific, but rose to 3.6% in Southern Asia. Even though companies in Southern Asia are spending proportionately more than their global counterparts in the fight against financial crime, they nonetheless lose a higher percentage of global turnover to bribery and corruption.

Shortcomings in formal compliance

Companies presently undertake a range of formal compliance procedures in relation to customers, third party vendors, suppliers or partner relationships, including:

- Screening and classifying risk
- Conducting due diligence
- Monitoring and refreshing
- Implementing workflow and process reports
- Training and educating

When questioned about these procedures, shortcomings were evident, with respondents globally revealing that just 57% fully screen and classify risk, whilst only 52% fully conduct due diligence and 52% fully monitor and refresh.

Within the region, notable gaps included:

- In Asia-Pacific only half (50%) fully implement workflow and process reports and 51% fully train and educate their customers, third party vendors, suppliers or partners
- In Southern Asia 59% fully monitor and refresh; 59% fully train and educate their customers, third party vendors, suppliers or partners; and just 55% fully implement workflow and process reports

Even though companies cross the region are spending in excess of 3% of global annual turnover to prevent financial crime, gaps in their compliance procedures remain.

IN ASIA-PACIFIC

55%

FULLY IMPLEMENT WORKFLOW AND PROCESS REPORTS

IN SOUTHERN ASIA

59%

FULLY MONITOR AND REFRESH

Training gaps

Gaps in training suggest an opportunity for organizations going forward. For example, globally, less than half (46%) confirmed that formal training is undertaken by colleagues around the globe in identifying, preventing and reporting breaches in slave labor/human trafficking, meaning that more than half of global respondents' organizations either don't undertake training in this important area, or they don't know that they do, raising another important issue – one of awareness. A lack of training was evident within every region surveyed, with the corresponding percentages confirming formal training on this topic for the region being 49% in Asia-Pacific and a little over half (51%) in Southern Asia.

49%
ASIA-PACIFIC

51%
SOUTHERN ASIA

CONFIRMED THAT FORMAL TRAINING IS UNDERTAKEN BY COLLEAGUES AROUND THE GLOBE IN IDENTIFYING, PREVENTING AND REPORTING BREACHES IN SLAVE LABOR/ HUMAN TRAFFICKING.

Finding solutions

The importance of data

When it comes to rooting out financial crime, reliable and complete data is a critical requirement needed to develop a 360 degree view of risk. Additional Thomson Reuters research has revealed a plethora of challenges that organizations encounter, specifically relating to third party risk data. These include unreliable risk data sources, insufficient availability of risk data and poorly connected data sources.

Respondents were asked what they consider most valuable when selecting a financial crime data vendor, including advanced technology capabilities; subject matter expertise; research methodology; and breadth and depth of information.

Respondents across all regions overwhelmingly (95% or above) either already have or would consider a vendor with all of these attributes.

Collaboration as a tool to fight financial crime

There is a range of different actions that could be employed to tackle global financial crime, including:

- Sharing of financial intelligence/ information on specific cases by companies
- Sharing compliance best practice by companies
- Improving public-private partnerships
- Stronger global sanctions as punishment by governments
- Disinvestment in companies by the investment community
- Disinvestment in countries by companies
- Prioritizing working with companies that follow best practices
- Boycotting of those facilitating or perpetrating such crimes
- Media campaigns exposing specific cases

Globally, 94% of respondents were either very or slightly supportive of sharing of financial intelligence/information on specific cases by companies and sharing compliance best practice by companies, pointing to a clear appreciation of the importance of collaboration in the fight against financial crime.

Tools to fight financial crime

Thomson Reuters offers a holistic approach to help businesses identify, mitigate and act upon the risk associated with financial crime. Our broad range of solutions encompasses:

- Risk intelligence screening
- Screening as a managed service
- Geopolitical risk ranking
- Enhanced due diligence
- Transaction monitoring

We provide a centralized, scalable and integrated suite of solutions, powered by Thomson Reuters World-Check, the trusted and accurate source of risk intelligence.

Join the conversation: #FightFinancialCrime

Conclusion

In Asia and the Pacific, as in other regions, companies revealed extensive global networks, particularly in Southern Asia. They further indicated that these relationships are not fully screened for financial crime risk: within the region, under 40% are screened both at the initial onboarding stage and on an ongoing basis.

Responses further revealed that 49% of companies in Asia-Pacific and 53% in Southern Asia had been a victim of at least one form of financial crime during the 12 months preceding the survey. This was despite the fact that, across Asia-Pacific, companies spent 3.1% of turnover over the same period to prevent these crimes in their global operations. In Southern Asia the figure was even higher, rising to 3.6%.

Gaps in formal compliance procedures and inadequate training on important issues like slave labor and human trafficking are evident, and suggest that there is an opportunity for companies to adopt a more proactive approach in the future. Looking ahead, 96% of respondents across the region support the idea of sharing compliance best practice by companies, with many in favor of collaboration in the ongoing fight against all forms of financial crime. Undoubtedly, though, the first step to combating this global scourge remains lifting the lid on its true extent, impact and cost – both economic and humanitarian.

The insights delivered by our survey bring into sharp focus a global scenario in which inefficient, costly compliance processes are simply inadequate when it comes to screening vast international third party networks for any links to financial crime. The result is that such crime continues to flourish, with high percentages of respondents confirming that their organizations had fallen victim to at least one form of financial crime in the last year. Moreover, Europol research reveals that, since 2006, an average of only 10% of all suspicious transaction reports received by law enforcement agencies across Europe have ever resulted in any meaningful investigation, with the primary reason behind this cited as a general lack of quality intelligence. Access to reliable, quality data and actionable intelligence, as well as industry-wide collaboration, lie at the heart of any future solution to a plethora of issues that continue to cause incalculable harm to industry, society and the millions of individuals across the globe who collectively shoulder the true cost of financial crime.

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